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DEPT FOR EUR/CARC  
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TAGS: [ECON](#) [EINV](#) [ETRD](#) [ENRG](#) [EFIN](#) [AJ](#)  
SUBJECT: AZERBAIJAN COMMERCIAL UPDATE, SEPTEMBER 2007

11. Summary: This information is drawn primarily from the Azerbaijani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government.

#### SOUTH KOREAN INVESTMENT PROJECTS

12. On September 5, President Ilham Aliyev received a delegation from the South-Korean "GS E&C" corporation. The company has designed port relocation plans to move the Baku port to a wider area near the settlement of Alat, south of Baku. According to media reports, the project is valued at approximately \$400 million and is designed to be executed in three phases with a completion date of 12015. The Government of Azerbaijan expects to finance the project from the budget.

13. Another South-Korean company, Don Sung Engineering, submitted its proposal to the Government to construct a bridge across the Baku Bay. According to the project, the bridge is proposed to link the settlements of Shikhovo and Zikh and be 13.3 km long. It is supposed to ease major rush hour traffic and help with tourism development. The project is designed to be completed by 2015.

#### SMALL POULTRY BUSINESSES CLOSED DOWN

14. Nearly 80 percent of small poultry businesses have closed down in Azerbaijan. According to Aydin Veliyev of the National Poultry Society, 100-150 small private businesses have shut down in the Absheron peninsula area alone. He cited price increases on grains and lack of domestic stockpiles of feeds and food additives, as primary reasons leading to closures. He also mentioned that the government is currently reviewing a proposal to make poultry equipment and food additives exempt from VAT.

#### BAKU-TBILISI-KARS RAILWAY CONSTRUCTION

15. According to the Ministry of Transportation, construction of the Georgian (29 km) and Turkish (76 km) parts of the Baku - Tbilisi - Kars railway will start in October with an official ceremony on the Georgian - Turkish border. According to the Ministry, 50 companies have bid to participate in the tender, which parties hope to finalize by the end of September. The final document on BTK was signed last February in Tbilisi. According to the deal, Azerbaijan will issue Georgia a 200-million-USD loan (25 years, 1 percent interest rate) to help finance renovation of the existing lines, construction of a new 29-km line and a service station on the Turkish border.

#### AZERBAIJAN RAILWAYS TO BECOME A JOINT-STOCK COMPANY

¶16. The Ministry of Transportation is conducting negotiations with the World Bank to reform Azerbaijan Railways into a joint-stock company. This effort has been included in the national railway development program, which is being reviewed by the government. According to Musa Panahov, Deputy Minister of Transportation, reforms at Azerbaijan Railways are possible in the near future. The Government will own 100 percent of shares at the start of the new enterprise.

#### CASPIAN SHIPPING COMPANY INTENDS TO BUY THREE FERRIES

¶17. Azerbaijan State Caspian Shipping Company plans to purchase three ferries. Proposals have been submitted to the Ministry of Economic Development to be included in the State Investment Program for 2008. The Company justifies the purchase with increased volumes of shipments and more container shipments within TRACECA. Currently, the Company has a fleet of 7 ferries which transport shipments between Baku-Aktau, Kazakhstan and Baku-Turkmenbashi, Turkmenistan.

#### JUICE AND NUT EXPORT PROMOTION ASSOCIATIONS

¶18. Germany's GTZ, together with AzPromo (the GOAJ's investment promotion agency), plans to create associations to help promote juice and nuts business in both domestic and foreign markets. According to GTZ, Azerbaijani business people have been offered to unite to compete with large foreign producers from Ukraine, Russia, and Turkey, whose produce is available in Azerbaijan and internationally. Natural fruit juices from Azerbaijan have high export potential, but packaging and marketing is key in the international markets, and Azerbaijani products are inferior in this regard.

#### GOAJ TO INCREASE FUNDING FOR STATE INVESTMENT PROGRAM

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¶19. According to Minister of Economic Development Heydar Babayev, the government will increase public spending in 2008, but the investments will increase to a smaller degree. The government wants to finish the projects they have already started this year and get new ones under way.

#### AZERBAIJAN TO BUILD A WASTE-MANAGEMENT PLANT

¶110. According to Minister of Economic Development Heydar Babayev, the construction company to build a waste-processing plant will be chosen before the end of 2007. The Cabinet of Minister is due to issue an order to grant the Ministry of Economic the financial means to carry out the selection. According to the Minister, three companies are bidding for the project, and the contract should be signed before the end of 2007.

#### AZERBAIJAN TO BUILD A NUCLEAR REACTOR

¶111. According to Adil Garibov, Director of the Institute of Radiation Problems of the National Academy of Sciences, the GOAJ has approved construction of a nuclear reactor, a development that in Garibov's view would positively affect the country's strategic image. Garibov added that, if the IAEA approves this matter during its upcoming 51st conference to be held on 17-21 September in Vienna, the government could start construction in 2009.

#### IDA AND IBRD WILL HELP FINANCE ABSHERON PENINSULA CLEAN-UP

¶112. The International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD) will provide Azerbaijan with a 70-million-USD loan to help finance clean-up of the oil-contaminated lands of the Absheron Peninsula. The Government of Azerbaijan intends to sign the financing agreement before the end of this year. The State Oil Company of Azerbaijan (SOCAR) is cooperating with the World Bank as part of the 2006-2010 state program. The total area of contaminated lands on the Absheron peninsula is estimated at around 33,000 hectares, of which SOCAR owns 15,000 hectares of the most contaminated lands. SOCAR and the Government of Azerbaijan have set aside 63 million manats (roughly

\$74 million) and 18.5 million manats (roughly \$21.7 million) respectively for this project.

#### MANAGEMENT OF POWER DISTRIBUTION NETWORKS TO BE TENDERED OUT

¶13. President Ilham Aliyev has signed a decree to conduct a tender for the management of two regional power grids in Azerbaijan. The decision aims to help promote investments in the regional power distribution networks, introduce structural changes in the infrastructure, and improve overall power supply for the population and transparency in payment processing. The Sumgayit network covers the city of Sumgayit. The Sheki network covers the regions of Sheki, Gakh, Balaken, Zagatala and Oghuz. The State Property Committee has been tasked with conducting the tenders.

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